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PUBLIC UTILITIES COMMISSION

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, 1st Floor
Honolulu, Hawaii 96813

Re: Docket No. 2008-0083
Corrections to Hawaiian Electric's Corrected Opening Brief

Dear Commissioners:

Hawaiian Electric Company, Inc. ("Hawaiian Electric" or the "Company") hereby submits certain corrections to *Hawaiian Electric Company, Inc.'s Corrected Opening Brief*, filed January 6, 2009 ("Corrected OB"). Attachment 1 hereto lists and corrects the errors in the Corrected OB. Attachment 2 hereto contains corrected pages to the Corrected OB reflecting the corrections shown in Attachment 1. We apologize for any inconvenience caused by the filing of these corrections.

Very truly yours,
GOODSILL ANDERSON QUINN & STIFEL
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cc: Division of Consumer Advocacy
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ATTACHMENT 1

Corrections to Hawaiian Electric's Corrected Opening Brief

The following list contains corrections, listed by page number, to *Hawaiian Electric Company, Inc.'s Corrected Opening Brief*, filed January 6, 2009 ("Corrected OB"). To better see the changes being made, the corrected replacement language is shown in redline format (i.e., additions are shown with an underscore and deletions are shown with a strike through) to highlight the corrections to the language previously submitted.

1. **Page 9**

On page 9 of the Corrected OB, item number (3) in the list of items that were taken away by the interim decision and order reads:

> "(3) Adjustment for the expense of two leases for office space not incurred in the test year – a reduction in O&M expense, and approximately a $246,000 reduction in revenue requirements."

The foregoing language should be deleted in its entirety and replaced with the following:

> "(3) Adjustment for ~~the expense of~~ two leases ~~for office space not incurred in the test year – a reduction in O&M expense, and approximately a $246,000 reduction~~<u>not entered into, one lease signed but not currently incurring lease rent expense, and one new lease signed on August 28, 2009 – $224,000, $246,000</u> in revenue requirements."

2. **Page 19**

On page 19 of the Corrected OB, the second sentence in Section III.B.1 (Production O&M Expenses) reads:

> "As discussed below, it is Hawaiian Electric's position that the Commission's Final Decision and Order should allow the amount of $77,691,000 for the Production O&M expense for the 2009 test year."

The foregoing sentence should be deleted in its entirety and replaced with the following:

"As discussed ~~below, it is Hawaiian Electric's position that the Commission's Final Decision and Order should allow the amount of $77,691,000 for the Production O&M expense for the 2009 test year."~~

~~"Hawaiian Electric requests that the Final Decision and Order approve Production O&M expenses for the test year in the amount of $77,691,000.Hawaiian Electric's 2009 test year estimate for Transmission and Distribution ("T&D") O&M expenses presented in direct testimony was $44,459,000, consisting of $13,967,000 for Transmission and $30,492,000 for Distribution. HECO T-8 at 1; HECO-801 and HECO-802. As discussed below~~in the merit wage section of the instant brief, it is Hawaiian Electric's position that merit salaries should not be based on 2007 salary levels~~, and, therefore~~ but rather on the 2009 merit wage rate levels. Therefore, the Commission's Final Decision and Order should ~~allow the amount of $43,703,000 for the T&D O&M expenses for the 2009 test year. This would result in a total T&D O&M test year expense amount of $43,703,000.~~find that the amount authorized for Production O&M expense is higher than that filed in the Revised Schedules on July 8, 2009. (The Company has only determined the impact of the additional 2% wage rate level reduction from the Settlement agreement at the total company level. An allocation by NARUC account or process area has not been completed and, as a result, a recommended Final Decision and Order amount for Production O&M expense is not available.)"

3. **Page 34**

On page 34 of the Corrected OB, the first sentence on the page reads:

"Hawaiian Electric requests that the Final Decision and Order approve Production O&M expenses for the test year in the amount of $77,691,000."

The foregoing sentence should be deleted in its entirety.

Also on page 34 of the Corrected OB, the first paragraph under Section III.B.2 (Transmission and Distribution Expense) reads:

"Hawaiian Electric's 2009 test year estimate for Transmission and Distribution ("T&D") O&M expenses presented in direct testimony was $44,459,000, consisting of $13,967,000 for Transmission and $30,492,000 for Distribution. HECO T-8 at 1; HECO-801 and HECO-802. As discussed below, it is Hawaiian Electric's position that merit salaries should be based on 2007 salary levels, and, therefore, the Commission's Final Decision and Order should allow the amount of $43,703,000 for the T&D O&M expenses for the 2009 test year."

The foregoing paragraph should be deleted in its entirety.

4. Page 41

On page 41 of the Corrected OB, the last sentence before the "T&D Materials Inventory" heading reads:

"This would result in a total T&D O&M test year expense amount of $43,703,000."

The foregoing sentence should be deleted in its entirety.

5. Page 47

On page 47 of the Corrected OB, the number "88,948" should be deleted from the second full paragraph and the same paragraph should be reformatted so that it reads as follows:

> "For the reasons set forth above – short-term volatility in commodity prices, historical under-budgeting of maintenance costs, the lack of correlation between commodity costs and fabricated materials costs, and cost containment responses to fabricated materials price variations – the Company's original maintenance materials estimate of $8,871,000 should be considered conservative, well-reasoned, and ~~88,948~~appropriate irrespective of any temporary shifts in commodity price levels. Hawaiian Electric's revision of its test year estimate of Production Maintenance expense is also discussed in the Production O&M Section of this Opening Brief."

6. Page 51

On page 51 of the Corrected OB, the first paragraph under the "Customer Service Expense" heading ends with a citation that reads:

"See Settlement Exhibit at 4643."

This citation should be corrected to read:.

"See Settlement Exhibit at ~~4643.~~ 43."

7. Page 64

On page 64 of the Corrected OB, the second to last sentence of the first (incomplete) paragraph ends with a citation that reads:

"HECO T-14 Rate Case Update at 3-74."

This citation should be corrected to read:

"HECO T-14 Rate Case Update at 3-~~74.~~7."

8. Pages 122-23

The final sentence on page 122 (and continuing on page 123) of the Corrected OB reads:

> "Therefore, it is Hawaiian Electric's position that these costs, totaling $333,000 ($ 80,000 PV Host Program HECO only, amortized over two years + $ 253,000 AMI legal & regulatory amortized over two years), should remain in the test year expenses approved by the Final Decision and Order."

The foregoing sentence should be deleted in its entirety and replaced with the following:

> "Therefore, it is Hawaiian Electric's position that these remaining costs, totaling $~~333,000~~437,000 ((1) $ 80,000 PV Host Program ~~HECO~~Hawaiian Electric only, or $160,000 amortized over two years~~+~~, (2) $ 253,000 AMI legal & regulatory, or $506,000 amortized over two years, and (3) $104,000 FIT legal and regulatory, or $230,000 less $23,000 for MECO and HELCO, with the balance amortized over two years), should remain in the test year expenses approved by the Final Decision and Order."

9. Page 134

On page 134 of the Corrected OB, the last sentence before Section IV.A.1 (Additions to Rate Base) reads:

"If the Commission removes the electric discount and further determines that the impact to O&M expense and rate base should be incorporated into final rates, the Regulatory Liability-NPBC vs NPBC in Rates average balance rate base would be reduced by approximately $275,000 ($551,000 x 50%), resulting in a Regulatory Liability-NPBC vs NPBC in Rates average balance of $880,000 ($605,000 + $275,000)."

The foregoing sentence should be deleted in its entirety and replaced with the following:

"*If the Commission removes the electric discount and further determines* that the impact to O&M expense and rate base should be incorporated into final rates, the Regulatory Liability-NPBC vs NPBC in Rates average balance in rate base would be ~~reduced~~increased by approximately $275,000 ($551,000 x 50%), which would reduce rate base by the same amount, resulting in a Regulatory Liability-NPBC vs NPBC in Rates average balance of $880,000 ($605,000 + $275,000)."

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ATTACHMENT 2

taken away by the Interim D&O would have to be allowed.

The list of the reductions includes the following, which are discussed in more detail in other sections of the brief:

(1) Deferral of the Ellipse 6 upgrade project– a $1.187 million net reduction in O&M expense, and approximately a $1.303 million reduction in revenue requirements.

(2) Removal of the remaining 2% wage increase for merit employees that did not take place on May 1, 2009, including payroll taxes – a $680,000 ($628,000 +$52,000) reduction in O&M expense, and approximately a $746,000 reduction in revenue requirements.

(3) Adjustment for two leases not entered into, one lease signed but not currently incurring lease rent expense, and one new lease signed on August 28, 2009 – $224,000, $246,000 in revenue requirements.

(4) State investment tax credit correction – a $223,500 reduction in average rate base, and approximately a $26,000 reduction in revenue requirements.

(5) The reduction in the rate of return on rate base resulting from the ROE update. Dr. Morin reduced his ROE recommendation to 10.75%, assuming the cost recovery mechanisms are approved. This was an unsettled issue. This reduces Hawaiian Electric's revenue requirements by about $3 million annually.

The list of reductions made as a result of the Interim D&O that should be added back includes:

(1) CIP CT-1 Costs, as reflected in the Motion for a Second Interim Increase:

<u>O&M expense</u>	
Production O&M expense	$1,369,000
Admin & Gen O&M expense	$138,000
Payroll tax expense	$48,000
Total O&M Expense	$1,555,000
<u>Rate Base Average Balance</u>	
Net Cost of Plant in Service	$83,770,000
Accumlated Deferred Income Taxes	($2,259,000)
Total Rate Base Average Balance	$81,511,000

This results in approximately a $12.671 million increase in the interim revenue requirements.

LSFO:	0.011114 mbtu/kwh
Diesel:	0.024582 mbtu/kwh
Biodiesel:	0.016762 mbtu/kwh
Other plants:	0.011184 mbtu/kwh
Weighted average:	0.011184 mbtu/kwh

Settlement Exhibit at 16. See also Settlement, HECO T-10, Attachment 1 at 9.

The ECAF, ECAC and compliance with Act 162 are discussed elsewhere in this Opening Brief.

B. PRODUCTION AND T&D EXPENSES

1. Production O&M Expenses

Hawaiian Electric's 2009 test year estimate for Production O&M expenses (other than fuel oil and purchased power expense) presented in direct testimony was $80,391,000. HECO T-7 at 3; HECO-701. As discussed in the merit wage section of the instant brief, it is Hawaiian Electric's position that merit salaries should not be based on 2007 salary levels but rather on the 2009 merit wage rate levels. Therefore, the Commission's Final Decision and Order should find that the amount authorized for Production O&M expense is higher than that filed in the Revised Schedules on July 8, 2009. (The Company has only determined the impact of the additional 2% wage rate level reduction from the Settlement agreement at the total company level. An allocation by NARUC account or process area has not been completed and, as a result, a recommended Final Decision and Order amount for Production O&M expense is not available.)

During the course of this proceeding, the Production O&M expense estimate for the 2009 test year was revised several times. The table below summarizes the revisions:

	Direct Testimony	Rate Case Update	Settlement	Response to Interim D&O	2nd Interim CT-1 w/ water treatment
Production Operations					
Labor	15,402,000	15,829,000	15,632,000	14,521,000	14,924,000
Non-Labor	16,998,000	19,700,000	16,930,000	16,535,000	16,930,000
Subtotal	32,400,000	35,529,000	32,562,000	31,055,000	31,853,000
Production Maintenance					
Labor	17,610,000	17,610,000	17,491,000	16,859,000	17,095,000

Production Materials Inventory

Hawaiian Electric's proposed average 2009 test year Production Materials Inventory was $8,809,000 in direct testimony. HECO T-7 at 113; HECO-703. An adjustment was made to Production Materials Inventory in the Settlement. Hawaiian Electric agreed to include the adjustments resulting from the introduction of 2008 year-end actuals that results in a 2009 average $8,205,000 adjusted production inventory. Settlement Exhibit at 70; Settlement T-18, Attachment 1 at 1. Therefore, Hawaiian Electric requests that the Final Decision and Order approve $8,205,000 for the average 2009 test year Production Materials Inventory.

2. Transmission and Distribution Expenses

Hawaiian Electric's 2009 test year estimate for Transmission and Distribution ("T&D") O&M expenses presented in direct testimony was $44,459,000, consisting of $13,967,000 for Transmission and $30,492,000 for Distribution. HECO T-8 at 1; HECO-801 and HECO-802. As discussed in the merit wage section of the instant brief, it is Hawaiian Electric's position that merit salaries should not be based on 2007 salary levels but rather on the 2009 merit wage rate levels. Therefore, the Commission's Final Decision and Order should find that the amount of $2,829,000 was made to reflect the limiting of the 2009 test year merit salary amounts at the 2007 wage levels, and an associated adjustment for payroll taxes of $203,000. Revised Schedules Exhibit 3 at 11. The portion of the adjustment allocated to T&D O&M expense is $650,000 ($226,000 for Transmission and $424,000 for Distribution). Revised Schedules Attachment A at 1. Although the Company made this adjustment for purposes of interim rates, it is the Company's position that merit employee wage rates should not be held at this level in the rates approved in the Final Decision and Order in this proceeding. The Company's position is explained in more detail elsewhere in this Opening Brief.

The Order Approving HECO's Revised Schedules, filed August 3, 2009 ("Order Approving Revised Schedules"), approved the T&D O&M test year expense estimate presented in Hawaiian Electric's Revised Schedules, namely $13,633,000 for Transmission and $29,420,000 for Distribution, for a total T&D O&M test year amount of $43,053,000. Order Approving Revised Schedules at 1; Order Approving Revised Schedules, Exhibit A at 1.

However, as stated above, it is Hawaiian Electric's position that the Final Decision and Order should not limit the 2009 test year merit salary amounts to the 2007 wage levels. Instead, the Final Decision and Order should reflect the actual 2009 test year merit salary increase restoring a portion of the labor costs that were reduced to Transmission and Distribution O&M labor expenses for the test year.

T&D Materials Inventory

The average T&D Materials Inventory presented in direct testimony was $8,211,496. HECO T-8 at 1; HECO-803.

In its ID&O, the Commission stated that, "the record insufficiently addresses how

, , it is generally compensated for by reduced labor expenses, reduced outside services expenses, reduced maintenance work being performed, or a combination thereof").

Mr. Giovanni lent further support to his supplemental testimony at the panel evidentiary hearing. He made clear that a $2,360,000 increase in production maintenance nonlabor expense from 2007 to 2009 was attributable to a combination of (i) differences in the type of maintenance work performed, resulting in the use of different fabricated materials and/or different designs of certain fabricated materials; and (ii) general inflation. Commodity prices would not be the root cause of the increase, per Mr. Giovanni, they being a "small part of the cost driver." He also indicated that the portion of the nonlabor expense increase attributable to commodity prices is too hard to ascertain, as it is "too mixed in with everything else." Tr. (Vol. I) at 133-36 (Giovanni).

For the reasons set forth above – short-term volatility in commodity prices, historical under-budgeting of maintenance costs, the lack of correlation between commodity costs and fabricated materials costs, and cost containment responses to fabricated materials price variations – the Company's original maintenance materials estimate of $8,871,000 should be considered conservative, well-reasoned, and appropriate irrespective of any temporary shifts in commodity price levels. Hawaiian Electric's revision of its test year estimate of Production Maintenance expense is also discussed in the Production O&M Section of this Opening Brief.

C. CUSTOMER ACCOUNTS AND CUSTOMER SERVICE EXPENSE

1. Customer Accounts Expense

Hawaiian Electric's 2009 test year estimate for Customer Accounts Expense (excluding uncollectibles) is $12,358,000. See Revised Schedules Exhibit 1 at 1.

recalculated revenues (CA-T-1, pages 99 to 100). Applying the Company's 0.0719 percent uncollectibles factor to the Consumer Advocate's lower sales revenue estimate yielded a test year uncollectible expense of $951,000. During settlement discussions, Hawaiian Electric provided updated uncollectibles information showing a higher uncollectible expense amount than that proposed by either the Company or the Consumer Advocate. As a compromise of this issue as part of a broader settlement, the Consumer Advocate agreed to effectively return uncollectibles to the amount originally proposed by the Company after taking into account its lower sales forecast. This resulted in a settled-upon uncollectibles expense of $1,302,000. See Settlement Exhibit at 41-42.

Customer Service Expense

The Consumer Advocate's direct testimony proposed three a downward adjustments totaling of $1,325,000, to the Company's updated Customer Service Expense, which resulted in proposed Customer Service Expenses of $5,672,000. The DOD's direct testimony proposed to reduce Customer Service Expense by $230,000. See Settlement Exhibit at 43.

As a result of the settlement discussions and an additional negative merit salary reduction of ($37,000), the Parties reached agreement on all of the proposed Customer Service adjustments (except for informational advertising, which the Consumer Advocate and the Company agreed would be addressed at the evidentiary hearing). This resulted in a 2009 test year total settlement agreement Customer Service Expense amount of $5,784,000, which included (for purposes of the Interim D&O) the Consumer Advocate's negative adjustment of $774,000 for informational advertising. See Settlement Exhibit at 46.

D. ADMINISTRATIVE AND GENERAL EXPENSE

Hawaiian Electric's 2009 test year estimate for total A&G Expense is $88,948,000. See new organizations in several departments, 2) additional staffing and new groups for other organizational changes not related to the Energy Agreement initiatives, 3) relocation of the Meter Engineering Division due to a water incursion problem in the basement of the Ward I Building, and 4) reassessing space requirements of other divisions due to growth. Additional office spaces were needed for offices, work stations, reception areas, conference rooms, training rooms, equipment and supplies storage area, and for certain groups, space to operate and test equipment and machinery. HECO T-14 Rate Case Update at 3-7. The total additional office space of the following four leases is 24,307 square feet and had the following impact on the test year estimate for office lease rent expenses:

	Annual Lease Rent
• Waterhouse Lease for 770 Kapiolani Blvd, Suites 105 and 106	$ 57,000
• ASB Tower Lease for 1001 Bishop Street, Suites 2970 and 2959	470,000
• CPP Lease for 220 South King Street, Suites 600, 650, and 680	255,000
• Waterhouse Lease for 770 Kapiolani Blvd, Suites 401, 402 and 403	59,000
Total increase in Miscellaneous General Expenses	$841,000

HECO T-14 Rate Case Update at 6-7.

Response to Consumer Advocate's Information Requests

Hawaiian Electric's response to CA-IR-344 revised the test year office lease rent expense estimate to $3,844,000, a decrease of $59,000 from the Rate Case Update figure of $3,903,000. The revision resulted from an adjustment to include the estimated real property tax credits for the four new leases identified in the HECO T-14 Rate Case Update, totaling to $59,000. Response to CA-IR-344.

Hawaiian Electric revised its response to CA-IR-344 on March 31, 2009 and revised the test year office lease rent expense estimate to $3,765,000, a decrease of $79,000 from the original response to CA-IR-344. See also response to CA-IR-344, Attachment 2 at 1. The

Letter explained why no other HCEI-related outside services costs were removed in the Revised Schedules after the Settlement and Statement of Probable Entitlement:

> From the wording in this provision of the ID&O, it was clear to the Company that "these costs" referred to the $2,220,000 of Big Wind implementation studies costs. As the Company explained in its July 8 Response, it had already removed $2,220,000 of Big Wind implementation studies costs (and $200,000 of PV Host Program outside consulting costs) from the revenue requirement in its Statement of Probable Entitlement. Since the ID&O did not identify any other HCEI-related outside services costs to be removed from the 2009 test year, the Company made no further adjustments in this area.

Hawaiian Electric's July 17, 2009 Letter at 2.

Notwithstanding the removal of the HCEI-related outside services expenses identified above, certain other HCEI-related outside services expenses remained in the test year. The ID&O at footnote 16 addressed those HCEI outside services expenses that may be recovered in interim rates:

> On page 21 of the Settlement Agreement, the Parties agreed to normalize outside services' costs related to participation in commission-initiated proceedings or obtaining commission approval (e.g., legal and regulatory support services) for initiatives identified in the Energy Agreement.
>
> The result is a reduction of $396,000 in test-year outside services costs for the following HCEI-related dockets:
>
> $ 80,000 PV Host Program HECO only, amortized over two years
> $ 40,000 PV Host Program MECO & HELCO costs removed
> $ 253,000 AMI legal & regulatory amortized over two years
> <u>$ 23,000</u> FIT legal & regulatory MECO & HELCO costs removed
> <u>$396,000</u> Total reduction
>
> The commission will allow HECO, for interim purposes, to include legal and regulatory costs related to the PV Host, AMI, and the FIT programs, as described above.

ID&O at 9-10 n. 16. These expenses were also recognized in Attachment 1, column (H) of the Consumer Advocate's July 15, 2009 comments on the Company's Revised Schedules. Therefore, it is Hawaiian Electric's position that these remaining costs, totaling $437,000 ((1) $80,000 PV Host Program Hawaiian Electric only, or $160,000 amortized over two years, (2) $253,000 AMI legal & regulatory, or $506,000 amortized over two years, and (3) $104,000 FIT legal and regulatory, or $230,000 less $23,000 for MECO and HELCO, with the balance amortized over two years), should remain in the test year expenses approved by the Final

Settlement Exhibit at 69.

For purposes of settlement, the Parties agreed with the Consumer Advocate's position to amortize the estimated balance of the regulatory liability as of mid-2009 over five years (i.e., reflecting 6 months of the annual amortization of the 2008 NPBC in rates vs. NPBC and also 6 months of the annual amortization of the 2009 NPBC in rates vs. NPBC) and decrease the average net regulatory liability by $95,000. This results in an agreed to Regulatory Liability – NPBC vs. NPBC in Rates average balance of $605,000. Settlement Exhibit at 69.

As described in the Impact to Postretirement Benefits Other Than Pensions ("OPEB") section, if the electric discount is disallowed, the impacts to NPBC reflected in the OPEB expense and the associated rate base impact should be taken into account in its Results of Operations. If the Commission removes the electric discount and further determines that the impact to O&M expense and rate base should be incorporated into final rates, the Regulatory Liability-NPBC vs NPBC in Rates average balance in rate base would be increased by approximately $275,000 ($551,000 x 50%), which would reduce rate base by the same amount, resulting in a Regulatory Liability-NPBC vs NPBC in Rates average balance of $880,000 ($605,000 + $275,000).

1. Additions To Rate Base

a. Introduction

In this case, these are the following uses of funds from investors that are added to the rate base: (1) Net Cost of Plant in Service, (2) Property Held for Future Use, (3) Fuel Inventory, (4) Materials and Supplies Inventory, (5) Unamortized Net SFAS 109 Regulatory Asset, (6) Unamortized System Development Costs, (7) Unamortized RO Water Pipeline Regulatory Asset, (8) ARO Regulatory Asset, and (9) Working Cash.

b. Net Cost Of Plant In Service

In direct testimony, Hawaiian Electric's test year estimate for average Net Cost of Plant